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FROM AMBASSADOR VAN VOORST

E.O. 12958: DECL: 06/30/2018
TAGS: [MASS](#) [PREL](#) [MARR](#) [NATO](#) [PGOV](#) [IC](#)
SUBJECT: CLOSING OUT THE ICELAND AIR DEFENSE SYSTEM TRANSFER

Refs: A) 07 Reykjavik 99
B) Memorandum from USD Edelman to Secretary of the Air Force, 08 May 2007
C) 07 Reykjavik 192
D) 07 Reykjavik 322
E) State 63686

Classified By: Amb. Carol van Voorst for reasons 1.4 (b) and (d).

11. (C) Summary: Twenty-one months after the closure of U.S. Naval Air Station Keflavik, one major issue remains unresolved: the ultimate disposition of the residual parts and equipment associated with the Iceland Air Defense System (IADS). The Government of Iceland has made the IADS radar system its key contribution to the defense of their country and NATO, and desperately wants to complete this transfer as soon as possible. Although the U.S. Air Force has put together a significant effort to develop a Foreign Military Sales (FMS) case to allow the transfer, Iceland is still waiting to receive an authoritative Letter of Offer and Acceptance (LOA). Post greatly appreciates all efforts but is concerned that any further delay in providing an LOA will materially undermine our bilateral defense relationship. We look forward to the promulgation of a final LOA no later than July 31. End Summary.

Background

12. (SBU) The NATO-owned Iceland Air Defense System (IADS) is composed of four radar sites at Iceland's geographic "corners" linked to a control and reporting center and integrated software support facility at the former U.S. Naval Air Station Keflavik (NASKEF) site. The final disposition of U.S.-owned IADS equipment (primarily "supply point items" or spare parts) was left unresolved during the 2006 NASKEF closure negotiations, though a date of August 16, 2007 was set for the handover of the system to the Government of Iceland. These items, a large number of which are unique to the IADS system and cannot be used elsewhere, are essential to the continued operation of the radars.

13. (C) Discussions regarding the sale or lease of this equipment through a Foreign Military Sales (FMS) case took place throughout 2007 (Refs A and C). At both working levels and at the Under Secretary level, the Government of Iceland made it clear that IADS transfer is of key importance and that an operational and reliable system is Iceland's single largest contribution to its own defense and its biggest contribution to NATO.

¶4. (SBU) In an 8 May 2007 memorandum, Under Secretary of Defense for Policy Edelman requested that USAF inventory U.S.-owned equipment vital to continued IADS operation, and develop options for its transfer to Iceland "minimiz[ing] the cost of such transfers to both Iceland and the Air Force" (Ref B). Despite serious efforts by OSD, USAF International Affairs, USAF Europe, EUCOM, and others, USAF was not able to present an FMS case to Iceland for consideration until October 2007. The price requested was approximately \$5.8 million. Meanwhile, a contractual arrangement has allowed Iceland necessary access to these items despite the fact that the August 2007 IADS transfer date has passed.

Repricing

¶5. (SBU) Iceland's Ministry for Foreign Affairs (MFA) raised concerns in November 2007 that not all items in the case were actually U.S.-owned and that the price for some items appeared to be excessive given their age and condition. These concerns generated a reevaluation of the ownership of all the items as well as a review of whether the price for this materiel was statutorily allowable. Initial indications to the Government of Iceland were that some items were in fact NATO-owned and that the price of the FMS case would most likely decrease as a result. Nevertheless, upon completion of the review, DOD informed the Icelandic Embassy in Washington in February 2008 that the price of the FMS case had increased by approximately \$2 million to \$7.9 million, pending final preparation of a new LOA. (Note: The entire 2008 defense budget for Iceland is approximately \$20 million. End note.)

¶6. (SBU) Though our Icelandic counterparts have been gravely disappointed at the lack of progress in this matter, they have been patient, noting that they would likely agree to purchase at least some portion of the items in the FMS case. However, through the spring and summer, the Icelandic Government has become increasingly anxious, and representatives have raised the issue at almost every opportunity (ref E).

¶7. (C) On 9 June, the Icelandic Embassy in Washington was informed that the revised LOA would be delayed again due to concerns over proper pricing. Post understands there is some possibility that this new review may actually result in a price reduction. MFA reps have informed us that an LOA, whatever the terms, is long overdue. The lack of a formal offer undermines their ability to appraise the offer and make necessary decisions. Additionally, the MFA has asked whether they should regard the delays and revisions as a demonstration of the level of the USG's commitment to the broader defense relationship.

Comment: The Need for Conclusion

¶8. (SBU) From the Prime Minister and Foreign Minister down, every level of the Icelandic Government has made it clear that IADS is the linchpin of Iceland's security policy. Iceland sees IADS as its major contribution to facilitate the security operations of greatest visible importance; i.e., NATO air policing. Although positive about the U.S.-Iceland defense and security relationship overall, the MFA and new Iceland Defense Agency nonetheless are frustrated with the dragged-out IADS FMS process.

¶9. (C) The longer this process takes, the more we add credence to the perception that we do not take this NATO Ally's concerns seriously. The considerable efforts of all of us at EUCOM, OSD, USAF, State, here in Reykjavik, and elsewhere to build a new defense relationship after the closure of NASKEF are at risk. An impression of shabby treatment is taking hold -- an impression that we cannot allow to remain if we wish Iceland to contribute to NATO in the North Atlantic neighborhood, Afghanistan, and elsewhere.

¶10. (SBU) I look forward to the promulgation of the revised LOA and am hopeful that this matter can be wrapped up by no later than 31 July 2008. Embassy Reykjavik stands ready to assist in any way possible.

VAN VOORST